Growth and Development: The New Role of the State in the Context of Globalization

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CONTENTS

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Growth and Development: The New Role of the State in the Context of Globalization

The onset of a crisis for Keynesian-Fordist ideas in the developed world during the second half of the seventies - combined with the realisation, at the same time, that the Soviet model of development in the Eastern bloc and the Third World had failed - led to the triumph in the eighties of what is called monetarist (or supply-side) economic theories. Theses theories take as their point of departure the notion that an upswing in economic activity depends not on stimulating demand, but on stimulating supply by means of a reduction of the charges which weigh on business. Monetarist theory favours a strict budgetary and monetary policy, coupled with the withdrawal of the State from the productive sphere, and the limitation of its role in industrial and social relations.

In the event, the application of these venerable precepts of liberal orthodoxy did not bring about a lasting restoration of prosperity in the industrialised countries. Similarly, neither in the developing countries of the South, where they were put into practice in the eighties, nor in the countries of the former Eastern bloc, where they were applied in the nineties (usually on the recommendation of the IMF) did they result in a dynamic process of growth and development. Hence, from the end of the nineties onwards, we saw a renewed debate in both economic theory and economic policy about State intervention in the economy, and about the necessity (or otherwise) of government action to get back on the track of growth and development.

We propose to discuss the role of the State, and of economic policy, in the process of growth and development in three stages:

Firstly, we must review very briefly the various perceptions of the State held by economists, or, more precisely, by the major currents of economic theory (Marxism excepted): classical, Keynesian and liberal.

Secondly, we shall set out the role of economic policy according to the two main theories in contention: Keynesian versus supply-side (or monetarist) economics.

Thirdly, drawing on the experiences of the Asian NICs (newly industrialised countries), we shall examine the diverse forms State action can take in the process of development in the emerging countries of the South and the East.

1.The perception of the State by different currents of economic theory

At a time when the market leaded economy is being celebrated for its virtues, practically everywhere, and when almost all the former centrally-planned economies are busy carrying out reforms aimed at strengthening the rule of the market, it is not unreasonable to question the place of the State in the economy. What is the economic role of the State in a society which, generally speaking, puts its trust in market mechanisms to ensure the optimal allocation of its resources?

This question is particularly worthwhile in that economists' positions - even outside the interventionist camp - are far from identical on this point: if the orthodox neoclassical economists are generally hostile to any State interference in the economy, several classical authors (who thus belong to the liberal tradition) have stressed the need for public intervention to remedy the deficiencies of the market, which is not capable, by itself, of stimulating activity or guaranteeing economic growth in the long term. We shall deal briefly with this issue by outlining three different views of the State: those of the classical, Keynesian and neoclassical economists.

1.1 The economic role of the State according to classical economists: the State as corrective

We cannot, strictly speaking, describe the classical school as a homogeneous bloc on the question of the State. While Malthus, Ricardo and, above all, Say may reasonably be considered as the first theoreticians of liberal capitalism, Adam Smith, contrary to the popular idea, took a more sophisticated view. To be sure, *The Wealth of Nations* (his major work, published in 1776) saw in "the invisible hand" the best regulator of the economy, meaning that competition and the market are the best possible principles of economic organisation. Nevertheless, for Smith, the State had a role to play in economic affairs. Not only was it up to the State to build communication infrastructures (roads, canals, bridges and ports ...) and educational institutions, it also had to intervene to prevent steep rises in interest rates, which benefit only speculators.

John Stuart Mill, another great classical economist, sits firmly in the tradition of Smith's carefully articulated ideas. Although individualist and profoundly liberal (philosophically speaking), in *Principles of Political Economy* (published in 1848) he inveighs against what he named laws made and maintained with the avowed aim of keeping wages down. Furthermore, under the influence of the socialist ideas of the age, J.S. Mill showed himself favourable to the co-operative movement and to the establishment of workers' coalitions, at the same time supporting State intervention to prevent child labour and to improve the lot of the downtrodden.

As we can see, there is definitely a place for the State in classical economic thought. This recognition may seem paradoxical in A. Smith (who is often considered, not unreasonably, as the father of economic liberalism), and indeed in successors such as J. S. Mill. But it can be justified by the fact that the invisible hand (which theoretically provides the connection between the individual and the public interest) does not always work effectively in practice. In other words, we are dealing, in this context, with a "corrective" or "palliative" State (to borrow Denis Clerc's formula) which, by its action in the economic sphere, helps to remedy the deficiencies of the market.

Some classical economists distanced themselves even more from economic liberalism and, hence, went further in their support for State interventionism. Thus, the German economist Friedrich List, in his major work *National System of Political Economy* (published in 1840) favoured "educational protectionism", which he thought indispensable during a nation's period of industrialisation.

As for French Sismonde de Sismondi, his critique of economic liberalism - that it cannot ensure the well-being of all, and that it

increases the misery of workers - places him clearly at odds with the tradition of the classical school. As unorthodox historian and economist (described by Marx as the "leader of petit-bourgeois socialism"), Sismondi, in *New Principles of Political Economy* (published in 1819), and *Studies of Political Economy* (which appeared in 1837), proposed nothing less than a programme of State intervention with the aim of protecting the working class.

All in all, we cannot say that, with the classical economists, we are dealing with an unanimous liberal doctrine, and that the radical liberalism of Friedrich von Hayek and Milton Friedman is but the logical extension of it. In reality, the subtle differences, not to say the divergences, of analysis which exist within the classical school as far as the place of the State in the economy is concerned, are such that Keynesian interventionist ideas can just as well lay claim to the classical heritage as can those neoclassical positions which are most hostile to the State.

1.2 Radical liberalism and the rejection of public intervention: the State as plunderer

Although its roots go further back, radical liberalism (often termed ultra-liberalism) established itself in economic theory chiefly during the twentieth century, through the works of the Austrian school, and in particular those of Ludwig von Mises (1881-1973) and Friedrich von Hayek (1899-1992).

The Austrian school is one of at least three which make up the neoclassical tendency: the others are the English, founded by Stanley Jevons (1835-1882) and the Lausanne school founded by the French economist, Léon Walras (1834-1910). If all these have basic ideas in common, we must not conclude that all neoclassical economists are ultraliberals. The differences between the analyses of the economists inspired by those schools are more than just nuances. The Austrian tradition has undoubtedly taken furthest the individualist (or subjectivist) notion of the economy. It is also where we meet the most ardent defenders of economic liberalism, even if Friedman and the

Chicago boys, who came to the fore in the 1960s and 1970s, present us with another variant of radical liberalism.

For these ultra-liberal economists, the State must confine itself to the business of sovereignty - security, justice, diplomacy etc - for its intervention in the economic sphere is not just ineffective, but harmful, and must therefore be proscribed. This rejection of any State intervention in the economy rests on two related but distinct arguments. Firstly, any interference by the State in economic affairs brings with it a limitation of individual freedoms, and in particular of the freedom of business. Secondly, the taxes and social security contributions which enable the State to act, harm economic efficiency without necessarily leading to social justice. In a way, the predominant ultra-liberal conception of the State may be called that of a **plunderer**.

Although the thirty-year post-war boom saw the influence of radical liberalism decline sharply, the views expounded by this group found a new audience from the late seventies onwards, in the light of two developments: Keynesian economic policies were losing their effectiveness, and "Fordist" growth was running out of steam.

Milton Friedman, who won the Nobel Prize for Economics in 1976, made his name with his critique of the Keynesian policy of fighting unemployment by stimulating economic activity through government intervention. In *Inflation and Unemployment: Nobel Lecture* (Journal of Political Economy, 1977) and in other works, he dismisses the Keynes-inspired Philipps' Curve, which, by establishing an inverse relationship between inflation and unemployment, tends to support the idea that government economic policy has a choice between the two. Categorically rejecting this approach, Friedman propounds the thesis that any government intervention seeking to reduce unemployment only ends up setting off inflation. Furthermore, by distorting the functioning of the labour market, it has negative effects on job growth.

Other neoclassical economists, like Florin Aftalion, Henri Lepage, Jean-Jacques Rosa and Pascal Salin in France, would go even further in this ultra-liberal direction, denying both the value of, and the need for, any government policy at all, whether against unemployment or indeed of any kind in the economic sphere. This intervention, insofar as it

distorts the laws of the market and tramples on individual freedom, is not only ineffective but even fatal, in that it ends up making a bad situation worse rather than better.

Since the late seventies this radical liberalism has been, as we said, very influential, in the major industrialised countries and elsewhere, as the "Fordist" model of growth has slid into crisis. However, because of their extreme (if not extremist) character the aims of this group are, in practice, difficult to achieve in full. Thus, Margaret Thatcher in the United Kingdom and Ronald Reagan and George W. Bush in the United States, despite going very far in the application of liberal economic ideas, did not do away with all government intervention. Is this because the economic role of the State is irreplaceable in the modern world? We shall see this with the Keynesian idea of the State as regulator.

1.3 Keynesian interventionism: the State as regulator

Leaving Marxism aside, the interventionist strand in economics goes back to John Maynard Keynes. From his analysis of the causes of the crisis in the 1930s, Keynes arrived at the conclusion that, contrary to the liberal position, market mechanisms do not by themselves play a regulating role. Since, in his view, laissez-faire had clearly shown its limitations, the only means available to industrialised countries to escape from the difficulties created by this crisis was for the State to intervene through an appropriate economic policy.

From the Keynesian perspective, the pursuit by individuals of their private interests does not necessarily lead to the general well-being; the general interest is, therefore, not the sum of individual interests. The point, then, is not whether the State does things better or worse than private actors; it is that the State, as guarantor of the general interest, must do what private actors, motivated by their personal interests, are not capable of doing. That is, it must ensure the overall regulation of the socio-economic system. This is the State as regulator.

This regulator State, as Keynes himself outlined it, notably in his *The General Theory of Employment, Interest and Money* (Macmillan Cambridge University Press, 1936), intervenes chiefly through budgetary and monetary policy, in order to stimulate demand and, hence, economic activity and employment. Nevertheless, since Keynesianism cannot be reduced to its founder alone, some of his disciples have widened appreciably the State's sphere of action in its regulating mission. Joan Robinson and Michael Kalecki, two radical Keynesians, have stressed the importance of State control of investment, while defending the idea of an extension of the State's function in income redistribution to favour the disadvantaged strata of the population.

We should point out that this strongly interventionist position does not reflect the view of Keynesianism as a whole. Many other Keynesians have supported views must less favourable to the extension of the economic role of the State. In particular, those who are called "Synthesis Keynesians" – or more precisely, "Neoclassical-Keynesian synthesis economists" (John Hicks, Franco Modigliani, James Tobin) - reject any notion that the State should take the place of the market in economic regulation. From their point of view, active State intervention can be neither general nor permanent; it must be limited to economic policy and reserved for the most difficult situations (soaring unemployment or rampant inflation).

Overall, unlike radical liberalism, the Keynesian school supports the principle of State intervention in the economy. However, for the different strands within the school, this intervention is different in nature. In one hand, for **Synthesis Keynesianism**, it must be carried out essentially by means of economic policy, whose role is particularly important in periods of economic slowdown. Among radical Keynesians (or, in other words, those who are named **Leftist Keynesians**), on the other hand, the economic action of the State is understood in a broad sense: the economic role of the State extends into many areas (beyond the stabilisation of conjuncture): income redistribution, resource allocation, infrastructure development, management of education and training, fostering research and innovation, etc. In short, in the name of the public interest, the State must take the place of the market in the overall regulation of the economic system.

2. The role of economic policy in the industrial countries: Keynesian versus supply-side economics.

What has been presented above gives a global idea of the perception of the State by the different schools of economic theory. Going now into more detail, we can say that no economic doctrine excludes the State totally from economic life. The functions granted to the State in the economic sphere simply vary a good deal, in nature and extent, according to the two major approaches which have dominated economic debate since the end of World War II: *Keynesian economics*, which held undisputed sway during the long post-war boom; and so-called *supply-side economics*, which grew out of the classical and neoclassical school, and which has enjoyed considerable success since the mid-seventies. We shall examine the role of economic policy in Keynesian economics during the first period, and then the withdrawal of the State in the supply-side economics of the second period.

2.1 The importance of economic policy: Keynesian economics

The successful Keynesian economic model, which was applied in most industrialised countries in the two decades following the Second World War, assigned to the State an important role which can be summed up in three main functions:

a) **Macro-economic stabilisation** which, as the name suggests, aimed to limit cyclical variations of activity by means of a counter-cyclical orientation of budgetary and/or monetary policy.
b) **social redistribution** which, under the title "welfare state", sought to ensure social harmony by a policy of correcting inequalities in the distribution of wealth and income.
c) **allocation of productive resources** in order to bring about the optimal use of resources by means of managing the market, which is unable, by itself, to guarantee the public interest in the long term.

From the Keynesian point of view, these three functions, which are closely inter-related, are justified by three additional propositions as follows:

Firstly, contrary to the idea maintained by supply-side economics, it is not savings which determine investment - and, hence, the level of activity - but overall net demand and its outlook. And the budget and the currency are (or at least can be) powerful instruments for managing overall demand.

Secondly, the primary purpose of the State, as guarantor of the public interest, is to maintain social harmony. This demands appropriate monetary and budgetary policy - combined with a dynamic policy of income distribution - as well as a policy of full employment, of all factors of production but, particularly of the labour force.

Thirdly, as is manifest in periods of crisis characterised by under-employment, the rule of the market, based on an adjustment of the price level, has been shown to be deficient in maintaining full employment. The State must therefore arm itself with the means to remedy this deficiency in the market.

The strong, uninterrupted growth experienced by industrialised countries during the long boom can be explained in part (let us say in large part) by the State's effective and efficient taking on of these three major functions. Thanks to the "fine tuning" of economic activity, the State was able to maintain an optimal long-term level of activity which resulted in full employment in the industrialised countries. This was achieved through the control of a set of macroeconomic policy mechanisms which linked means to aims.

However, in large part does not mean entirely. For this period of remarkable prosperity, while it could largely be put down to astute economic policy, was at the same time the result of a conjunction of favourable factors labelled as the "Fordist growth model" (some more rigorous writers prefer the term Keynesian-Fordist growth model). These favourable factors are found internally in each country, and at the international level as well.

At the internal level, in line with the French Regulation School (Michel Aglietta, Bernard Billaudot, Robert Boyer, Benjamin Coriat...), we may characterise this prosperous phase of recent economic history as

a "virtuous circle" of growth. This expression refers, essentially, to the strong relationship between, on the one hand, high demand (maintained both by full employment and by a constant improvement in the purchasing power of the working classes, who have a strong tendency to consume) and, on the other hand, a growing supply of consumer goods, made possible by a steady rise in productivity and by "scale economies" associated with mass production of standardised goods.

According to the Regulation theorists, this "virtuous circle" only established itself as a long-term phenomenon thanks to the beneficial effects of the institutions that went with it: these included a compromise between Labour and Capital over the sharing of gains in productivity, through negotiations which brought together employer representatives, trade unions and government, as well as the indexation of wages to consumer prices, and a welfare state policy of redistribution in favour of disadvantaged groups.

At the international level, the long post-war boom was also marked by conditions which were particularly favourable to strong, sustained growth. Firstly, the freedom of international trade (which was introduced, or re-introduced, by the Breton-Woods Agreement of July 1944) resulted in an improved climate of competition with positive effects in terms of productivity gains for the industrialised economies which were opened up. In addition, the system of fixed exchange rates, which was also set up at the Breton Woods Conference (in which Keynes took part), went hand in hand with controls on international capital flows, thus allowing considerable latitude to national monetary policies, which could hence be mobilised to assist economic and employment growth.

This, then, was the economic, social and political set-up which underpinned the exceptional prosperity experienced in the industrialised countries during the post-war boom. The shattering of this favourable arrangement in the mid-seventies revealed the exhaustion of the Fordist model and the Keynesian macroeconomic policies loss of effectiveness. With the acceleration of globalisation from this time on, we observe a shift to a new phase in the economic history of the industrialised countries, namely the supply-side economics which has predominated in the last thirty years.

2.2 The State withdraws: supply-side economics

The late seventies were characterised by two major developments: First, on the theoretical level, the phenomenon of stagflation (simultaneous rises in inflation and unemployment) gave a new lease of life to the liberal critique of economic interventionism. By invalidating the inverse relationship established by the Philipps' Curve (between employment and inflation), it brought supply-side theory back into fashion. Milton Friedman, the leader of the monetarist school, totally dismissed the Keynesian growth approach, which, by making demand the key factor, regarded government spending as the only way to kick-start activity and employment in a recession period. On the contrary, Friedman argued, State intervention prevents the achievement of full employment by distorting the rules of the labour market. Consequently, the only way to foster employment and growth was by structural reforms aimed at restoring the operation of free market forces, combined with a monetary policy oriented exclusively to fighting inflation.

Second, on the level of economic policy, the rules of the game were completely overturned by financial globalisation. As Canadian neo-Keynesian economist Robert Mundell, winner of the Nobel Prize in 1999, has clearly demonstrated, economic policy choices are severely limited by international financial integration. In a ground-breaking 1963 article, ("Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates", *Canadian Journal of Economics*, 29, pp.475-485), he expounded his famous "*The Triangle of incompatibility Theory*", according to which the freedom of international capital flows, fixed exchange rates and the autonomy of national monetary policies cannot all be maintained at the same time. At best, two of the three elements can be reconciled, or each one only partially. Any country therefore has to make a tightly constrained choice in economic policy: since, nowadays, controls over international capital flows are hard to imagine, it must either sacrifice exchange rate stability or accept the loss of its room to manoeuvre in monetary policy.

Taken together, these two developments have called into question the role of the State in the economy: on the one hand, its intervention via economic policy has been drastically limited by financial

globalisation; on the other, it has been seriously undermined by the offensive against Keynesian policies led by the supply-side theorists. The only economic role still granted to the State is to ensure the preservation of the competitive conditions necessary for the efficient operation of markets.

This new configuration revealed a set of power relations favourable to the supply-side position and unfavourable to the Keynesian, both in theory and in economic policy. The result was that, during this second phase, the industrialised countries stopped giving priority to the stimulation of demand, and gave it instead to liberalisation of supply conditions. And since economic management was now totally subservient to the imperative of price stability, it followed that structural policies - defined jointly by free market proponents economists and international financial organisations - took over the task of stimulating growth and employment.

Whether by accident or design, the market was, in this context, touted as a remedy for the weaknesses of government action. The result was the retirement of the State from the economic scene observed in the major industrialised countries: first, through the eighties, in Great Britain under Margaret Thatcher and in the United States under Ronald Reagan; then, during the nineties in continental Europe, under different governments (including those of the left). This State withdrawal took a variety of forms: privatisation of public enterprises; opening up to competition of sectors which had hitherto been considered as public services; reduction of taxes on businesses and on incomes from savings; deregulation of markets in goods and services, labour, and capital; and the introduction or extension of market mechanisms into social services like health, pensions and employment agencies.

Did this total reversal of direction and priorities in economic policy lead to the objective set by its promoters - kick-starting activity? There is some doubt, to say the least. To be sure, in some places and at some times, supply-side policies saw the return of vigorous growth and a reduction of budget deficits; this was the case in the United States during the nineties and is in the United Kingdom until recent times. Nonetheless, besides the fact that these successes remain fragile (as shown by the current colossal deficits in the United States), the other industrialised countries which have take the same general direction are far from having achieved the same positive results: a case in point is the Euro zone, where growth is still desperately weak. In these conditions (to which we must now add the current financial crisis), it is understandable that Keynesian-inspired macroeconomic policies should again be coming into their own on both sides of the Atlantic; to coin a phrase, Keynes is back.

In the United States, first, where the economic growth of the nineties (under Clinton's Administration) and of the first years of 2000 decade (under G. Bush's Administration) owes a good deal to the accommodating (and counter cyclical) monetary policy of the Federal Reserve and to the Government's budgetary policy, these two policies clearly have nothing to do with the monetarist orthodoxy professed by supply-side theorists.

Next, in Europe, taking monetary policy first, we note that starting in the spring of 2001 (when the German economy went into recession), the ECB notably lowered interest rates, despite its doctrinal reservations and its charter (whose sole mission is to maintain price stability). Taking budgetary policy second, we observe that the most hotly-debated question 2003, 2004 and 2005 was that of the flexibility of the rules of the famous Growth and Stability Pact. These are considered too restrictive on public finances, especially by France and Germany, which both exceeded the deficit limit of 3% of GDP during these years. This relaxation (even cautious) is not in line with the monetarist orthodoxy which has been the hallmark of European construction since the Maastricht Treaty, any more than the US policy is.

This is what we can say about the role of the State and economic policy in the industrialised countries of the North, as it is perceived by the two dominant schools of economic thought today: Keynesianism and supply-side economics. What is the situation with respect to the role of the State in the developing countries of the South?

3.State and Development in the emerging countries of the South

As with economic growth in the developed countries (or countries of the North), the role of the State in economic and social development in the developing countries (or countries of the South) is a very controversial question. Those economists and political leaders who support, more or less explicitly, the "Washington Consensus", consider that "the State is not the solution but the problem". Conversely, the idea which underpins the "post-Washington Consensus" is that the economy cannot be handed over to market forces. Although liberalisation may be necessary, the market must at the same time be "governed". As the Chinese metaphor has it, "the market is a precious bird which must be kept in a cage so that it does not fly away".

As we know, growth and development are not synonymous. When we speak of development, we normally understand not only an increase in the material and non-material wealth produced in a given period (the definition of growth), but also its positive social results, that is, a rise in general well-being (i.e. an improvement in the living conditions of the population and the working conditions of the labour force). The works of the UNDP (United Nations Development Program) on "human development indicators" (HDIs), inspired by the researches on poverty of the 1998 Nobel prize in Economics Amartya Sen, are based on this idea of going beyond the simple notion of growth. With the concept of "sustainable development" we introduce an additional dimension, the ecological one which the term "growth" does not take into account, and which includes a concern for the preservation of the natural environment.

At the same time, the concept of the State is far from being stable in the current context of globalisation and profound technological changes. In particular, as a result of both supra-national and infra-national regionalisation, the traditional State concept, embodying the nation as a legal entity, seems somewhat overstretched: from above, with the building of regional economic blocs of varying degrees of integration, such as the EU and NAFTA,; and from below, with the emergence of coherent territorial movements, whether or not associated with processes of political and institutional decentralisation. All this raises the question: how far does the State's competence extend, and how much room does a central government have to manoeuvre?

We shall treat the problem of the current role of the State in the economic development of the developing countries under three headings.

Firstly, we shall demonstrate, by means of a brief review of the positions of the great economists, that the question of the role of the State is an old and recurring one.

Secondly, taking the experience of the emerging countries of Asia as a reference point, we shall see how the State, without denying the role of the market, can be a real engine of development (the State as "Pro" of development, as Christian Sautter has it; "Pro" meaning that the State is successively or simultaneously producer, protector, prospector and programmer).

Thirdly, since the situation is naturally evolving, we shall present an overview of the recent questioning and re-examination of the role of the State in the development process.

3.1 The role of the State in development: an old and recurring question

In the 18th century, the question under discussion was less that of the State in development than that of the relationship between the State and the market. It was a time when François Quesnay, the French Physiocrat economist, was defending the principles of free competition and the total freedom of commerce.

At the same time, Adam Smith was making the case for the free market in approximately the following terms (I quote from memory). Planners upset the workings of nature in human affairs, whereas it should be left to itself and allowed to act freely to achieve its goal. Any government which is opposed to this natural course, which wishes to give to capital movement another direction, is in revolt against nature and becomes oppressive and tyrannical in order to maintain itself.

Holding this view, A. Smith and J. B. Say argued that the United

States, like Poland, was destined to be an agricultural country. The same natural endowments led Portugal to specialise in the production of wine, Germany in wheat and wood, France in wine and silk-wares, Tunisia in olive oil and citrus fruit, and so on.

List, the theoretician of "educational protectionism", denounced Great Britain's abiding strategy, which consisted of defending the principle of free trade and of the non-intervention of the State in the economy. As the number one economic power of the day, it sought to block any attempt at industrial development outside its own borders, especially in Germany and France, as well as in the rest of continental Europe.

In opposing free-trade ideas, List warned the countries which had come to industrialisation later (than England) - and, first and foremost, his own country, Germany - against yielding to the siren-songs of liberalism and "laissez-faire" in international trade. In his opinion, the only way for these countries to build a national industrial base was through State intervention, supporting infant industries in the initial phase, and protecting them from foreign competition. (We should remember that List was the inventor of the notion of "protection of infant industries".)

Writing in the same vein but much later, the French economist, François Perroux, explained in the 1960s that Great Britain, although it is the homeland of economic liberalism, has experienced longer or shorter periods of State intervention during its economic history. These have played a decisive role in the construction of economic and social infrastructures, which are so necessary for development. In particular, from the second half of the 17th century on, the State constructed the canal system which, for a long time, gave Great Britain its maritime supremacy.

The same goes for the United States which, while declaring itself to be the land of free enterprise and free market, saw the different states of the Union play an extremely important role in industrial development, including the use of protection for domestic infant industries.

The 1917 revolution in Russia, and the advent of a socialist economic model, naturally amplified and systematised the role of the

State as an economic actor. In the former USSR and in the east European countries which were ideologically bound to it, not only did the State control "the commanding heights of the economy" (to borrow Lenin's phrase), it also exercised total planning authority. In such a regime, industrial development was initiated and carried out by the State (or, more correctly, by the Party-State), and financed by a banking system entirely controlled by it. Central planning was also in operation in the People's Republic of China during the Maoist period (1949-1978).

After the Second World War, forms of planning influenced by Keynesian ideas were instituted in the industrial countries of Western Europe. Although they were indicative rather than authoritarian, these forms still demonstrate the recognition of the importance of the economic action of the State in the western market economies at the time.

3.2 The Asian case: the State as development "Pro"

Ideas about development were totally transformed, first by Japan in the fifties, and then by the Asian NICs in the seventies and eighties: not only was catch-up theoretically possible, it could be practically achieved. South Korea, Hong Kong, Singapore and Taiwan now have high levels of per capita income, exceeding those of several EU countries from before the enlargement of May 2004. In terms of HDI, this first generation of Asian NICs is now in the front rank of so-called developing countries.

According to the liberal view, this process of catch-up can be explained by the economic liberalisation policy put in train in the dynamic Asian countries during the nineteen sixties. This explanation would suggest that the Asian NICs (particularly those of the first generation: South Korea, Taiwan and Singapore) are an excellent illustration - as well as an empirical confirmation - of the theory of economic, industrial and technological take-off founded on “comparative advantage”.

Several observers and analysts have strongly contested this view. To back up their criticism, they point out that the economic progress of

the NICs relies in large part on many kinds of State intervention. Korea, for example, devised and instituted determined and well-targeted industrial policies, based on high levels of protection in industrial sectors considered to be strategic. In addition, the Korean State intervened massively through a pricing policy which aimed to direct investments into industries regarded as having high priority. Finally, this ambitious industrial policy was financed by setting interest rates which varied from industry to industry, and by granting import licences to companies in proportion to their earlier export performance.

In the light of all this, it could be argued that, far from having applied precepts of liberalism, the NICs have rather been inspired by Keynesian ideas (particularly those of radical Keynesianism which, as we have seen, widens the role of the State to include resource allocation, and, hence, the direction of investment). They have also drawn on ideas developed by the economist Friedrich List, who was teaching in the 19th century (in the 1840s, to be precise) the necessity of protecting infant industries, although this protection should be seen as transitional (i.e. as a preparatory stage before opening up to international competition).

Thus, in the case of the dynamic Asian countries, we are dealing with a strongly complementary relationship between the role of the State and that of enterprises (whether public or private). A new concept has been put forward to analyse this complementary relationship between an interventionist State and business, in the growth of the Asian NICs: that of "State capitalist development". This concept describes a form of development based on close co-operation between the State and the enterprise, as well as an effective co-ordination between economic actors undertaken by government departments.

We are not faced here with an authoritarian, bureaucratic planning system, but with a mechanism of "administrative orientations and incentives" best described as "administrative guidance", which owes its effectiveness in part to the close contacts between government and business. The efficiency and effectiveness of this mechanism stem from the fact that a range of inducements are provided to encourage businesses to follow State guidelines on technology and industry. Ch. Sautter, a recognised expert on Japan, coined the phrase "Pro State" to cover the various forms of State intervention in the country's development. In a book published in the seventies (Sautter, 1973), he showed that the State had been successively - and sometimes simultaneously - "producer, protector, prospector and programmer".

All in all, it is clear that, if part of Asia has successfully met the challenges of catch-up, this is due in large measure to the action of the State, and to the intelligent way it has combined its intervention with that of business. Leaving aside the die-hard liberals discussed earlier, there is now a consensus on this view. Even the World Bank, which has during a long time propounded the virtues of the free play of markets, ended up by admitting that the State has an irreplaceable role in the process of economic take-off and development in the countries of the South - based on the Asian example. This change in the World Bank's position took place in two stages during the 1990s:

- First, rather cautiously, in the 1993 report entitled "The East Asian Miracle", in which it recognised that the State can act positively in favour of development,

- Then, more openly, in the 1997 report entitled "The State in a changing World", where we read an astonishing phrase in an official document from an institution which had hitherto subscribed fully to liberal orthodoxy: "Development without the implication of the State will fail".

3.3 Recent re-examinations of the State's role in development

As we have said, as a result of the exhaustion of the Keynesian-Fordist model of growth in the countries of the North – and of the failures of the standard State-driven model of development in the South as well as of the communist model in Eastern Europe - the role of the State came in for serious criticism and rethinking over the past thirty years.

At the beginning of the eighties, the debt crisis in several developing countries revealed the fragility of their economies. To overcome the problem, the IMF and the World Bank imposed Structural

Adjustment Programmes whose leitmotiv was a reduction in State economic intervention, which was said to create waste and inefficiency while benefiting only a minority of people.

In 1989, the fall of the Berlin Wall sounded the death-knell of the centrally-planned economy. The system of directive (State) planning was completely abandoned in Central and Eastern Europe. It gave way to a sometimes rough economic liberalisation, as shown in the Polish and Russian cases, under respectively, Leszek Balcerowicz (twice minister of Finance of Poland in the nineties) and Iegor Gaïdar (first deputy Prime minister of Russia in the early nineties).

In 1997, the Asian financial crisis showed up the deficiencies of the banking and financial systems of countries which had been thought safe from economic upsets. Once more, the State was held primarily responsible for what happened in Indonesia, the Philippines, Thailand and elsewhere. It is a fact that the Asian crisis of 1997-98 can be seen as one caused by a system founded on collusion - or, at best close collaboration - between the State, big business and the banks. This tripartite State-directed system, which had hitherto been a factor in their success, did become, over the long term a source of fragility and crisis. This analysis argues that businesses, with the State's tacit agreement, tended to over-invest, and to borrow rashly to do it from a banking system which was obedient to government direction - to the extent that they found themselves over-indebted and unable to meet their commitments.

On the basis of these many (and more or less radical) criticisms, are we allowed to conclude that the role of the State in development is over, and that it should retire once and for all from the economic scene? Far from it! Over the last ten years, in the follow-up to the 1997 World Bank Report, the tendency has, on the contrary, been to rehabilitate the place of the State as an irreplaceable actor in the process of development, both at the theoretical level and in development policy.

This is particularly true where the poorest countries are concerned. A now widely-held view maintains that the persistence of poverty in a number of countries after several "development decades" can be explained, not by a lack of resources, but by a lack of State intervention. For, not only does economic development require political stability, it also depends on a range of material, legal and institutional infrastructure which only the modern State can provide.

On another level, it is clear that - outside die-hard liberal circles - there is a consensus on the necessity for the State to play a role in economic regulation, both in developed and developing countries, even if no-one really contests the importance of the market economy any more. (In this respect, the current international financial crisis is the best illustration of the necessity of the State as a regulator of the economy).

Finally - and this concerns developed countries, transitional ones, but also, to some extend, developing ones - State participation, in partnership with private actors, is considered essential in today's global competition, particularly in strategic high-tech industries such as aeronautics, space exploration, biotechnology and microelectronics. (The activities of major public laboratories like the CEA or the CNRS in France are particularly significant here.)

This goes to show that State intervention in the economy in general, and industrial policy in particular, is essential, not to say irreplaceable, for the destiny of nations, today as it was yesterday. Beyond Sautter's phrase about the State as "development Pro" in reference to Japan, this irreplaceable role is played out in a range of functions and requirements: economic regulation; political and institutional stability, legal and financial transparency, industrial co-ordination, social and national cohesion, international co-operation and governance, etc.

Conclusion: what is the outlook for the role of the State in economic and social development?

The State's role in development is bound to change significantly as a result of the challenges described above, of the multitude of changes the world has experienced over the past thirty years, and of the new demands which have come to the fore (particularly in the fields of environment, sustainable development and international governance). This inevitable change can be understood in two complementary but separate ways.

On the one hand, at the national level, the State must now bite the bullet on a whole series of critical questions about the overall direction of development: environmental protection; improvement of the living

conditions of the population, (not to mention the working conditions of the labour force); the promotion of democratic freedoms and fundamental human rights; and the practice of "good governance" at all levels of the political and administrative structure, which implies the participation of civil society in the design and execution of major economic and social projects.

On the other hand, at the international level, the State can no longer ignore the growing interdependence of nations brought about by the process of globalisation. The expression "global village", even if it seems overstated, nevertheless denotes a real situation in which the global is present at different levels of economic and social life in human communities, whether national, regional or local. Because of this growing interdependence, the State (both in developing countries and in transitional or developed ones) can no longer take major decisions "in total independence", that is, outside of any international co-ordination or global oversight. A range of international regimes bears witness to this truth: WTO rules on world trade, IMF regulations over current international financial supports, IAEA controls over nuclear programmes, etc.

Thus, to continue to fulfil its role as an actor in development, the State must face up to a twofold challenge: globalisation which is swamping it from above, and which requires a global response; and regionalism, which is undermining it from below, demanding that the aspirations of human communities and social groups be taken into account at local level. To be sure, this twofold movement does not mean the death of the State; but it must learn to improve its ways of working, if it is to play its role fully in this new context.

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